

**REPORT OF THE AUDIT OF THE
OWEN COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2004**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE OWEN COUNTY FISCAL COURT

June 30, 2004

The Auditor of Public Accounts has completed the audit of the Owen County Fiscal Court for fiscal year ended June 30, 2004.

We have issued an unqualified opinion on the governmental activities and each major fund.

Financial Condition:

The fiscal court had net assets of \$28,454,108 as of June 30, 2004. The fiscal court had unrestricted net assets of \$ 1,270,583 in its governmental activities as of June 30, 2004. The fiscal court had total debt principal as of June 30, 2004 of \$122,445 with \$40,282 due within the next year.

Report Comment:

- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Deposits:

The fiscal court's deposits were uninsured and uncollateralized by bank securities.

<u>CONTENTS</u>	PAGE
INDEPENDENT AUDITOR’S REPORT	1
OWEN COUNTY OFFICIALS.....	3
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS.....	7
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	10
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS.....	15
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	19
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	23
NOTES TO FINANCIAL STATEMENTS.....	25
BUDGETARY COMPARISON SCHEDULES	37
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION.....	40
COMMENT AND RECOMMENDATION.....	43
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	47



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable William P. O'Banion, Owen County Judge/Executive

Members of the Owen County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities and each major fund of Owen County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Owen County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Owen County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Owen County, Kentucky, as of June 30, 2004, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The County has implemented Governmental Accounting Standards Board Statements 33, 34, and 37 as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable William P. O'Banion, Owen County Judge/Executive
Members of the Owen County Fiscal Court

The County has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The Budgetary Comparison Information is not a required part of the basic financial statement but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Owen County, Kentucky's basic financial statements. The accompanying supplementary information is presented for additional analysis and are not a required part of the basic financial statements.

In accordance with Government Auditing Standards, we have also issued our report dated April 26, 2005, on our consideration of Owen County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
April 26, 2005

OWEN COUNTY OFFICIALS

For The Year Ended June 30, 2004

Fiscal Court Members:

William P. O'Banion	County Judge/Executive
Carl Banks	Magistrate
Bobby Gaines	Magistrate
Gary Minch	Magistrate
Eugene Vannarsdall	Magistrate

Other Elected Officials:

Charles Carter	County Attorney
David Bruce	Jailer
Mary K. Duncan	County Clerk
Cindy Wright	Circuit Court Clerk
Zemer Hammond	Sheriff
Lee N. Cochran	Property Valuation Administrator
Lannis Garnett	Coroner

Appointed Personnel:

Norma W. McDonald	County Treasurer
Renaee Gaines	Payroll Officer

THIS PAGE LEFT BLANK INTENTIONALLY

OWEN COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

OWEN COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 1,270,583
Total Current Assets	<u>1,270,583</u>
Noncurrent Assets:	
Capital Assets-Net of Depreciation	
Land	215,000
Buildings	439,792
Vehicles and Equipment	359,661
Infrastructure Assets - Net of Depreciation	<u>26,291,517</u>
Total Noncurrent Assets	<u>27,305,970</u>
Total Assets	<u>28,576,553</u>
LIABILITIES	
Current Liabilities:	
Due Within One Year	40,282
Noncurrent Liabilities:	
Due In More Than One Year	<u>82,163</u>
Total Liabilities	<u>122,445</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	27,183,525
Unrestricted	<u>1,270,583</u>
Total Net Assets	<u>\$ 28,454,108</u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

OWEN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

Functions/Programs Reporting Entity	Expenses	Program Revenues Received		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 894,065	\$ 606	\$ 138,457	\$
Protection to Persons and Property	540,964	242,718	38,220	
General Health and Sanitation	115,079	78,471		
Social Services	32,127			
Recreation and Culture	38,645			
Roads	1,964,687		849,161	172,000
Interest on Long-Term Debt	9,210			
Capital Projects	151,640		207,249	
Total Governmental Activities	3,746,417	321,795	1,233,087	172,000
Total Primary Government	\$ 3,746,417	\$ 321,795	\$ 1,233,087	\$ 172,000

General Revenues:

Taxes:

 Real Property Taxes

 Personal Property Taxes

 Motor Vehicle Taxes

 Other Taxes

Excess Fees

Unrestricted Investment Earnings

Miscellaneous Revenues

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

OWEN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2004
(Continued)

Net (Expenses) Revenues and Changes in Net Assets	
Primary Government	
Governmental Activities	Totals
\$ (755,002)	\$ (755,002)
(260,026)	(260,026)
(36,608)	(36,608)
(32,127)	(32,127)
(38,645)	(38,645)
(943,526)	(943,526)
(9,210)	(9,210)
55,609	55,609
<u>(2,019,535)</u>	<u>(2,019,535)</u>
<u>(2,019,535)</u>	<u>(2,019,535)</u>
354,137	354,137
1,940	1,940
85,837	85,837
622,176	622,176
93,260	93,260
17,525	17,525
51,204	51,204
<u>1,226,079</u>	<u>1,226,079</u>
(793,456)	(793,456)
<u>29,247,564</u>	<u>29,247,564</u>
<u>\$ 28,454,108</u>	<u>\$ 28,454,108</u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

OWEN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

OWEN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

	General Fund	Road Fund	Jail Fund	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 827,047	\$ 442,682	\$ 854	\$ 1,270,583
Total Assets	<u>\$ 827,047</u>	<u>\$ 442,682</u>	<u>\$ 854</u>	<u>\$ 1,270,583</u>
FUND BALANCES				
Reserved for:				
Encumbrances	\$ 3,678	\$ 4,560	\$	\$ 8,238
Unreserved:				
General Fund	823,369			823,369
Special Revenue Fund		438,122	854	438,976
Total Fund Balances	<u>\$ 827,047</u>	<u>\$ 442,682</u>	<u>\$ 854</u>	<u>\$ 1,270,583</u>

Reconciliation of the Balance Sheet-Governmental Funds to the Statement of Net Assets

Total Fund Balances	\$ 1,270,583
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported in the Funds.	34,675,450
Depreciation	(7,369,480)
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing Obligations	<u>(122,445)</u>
Net Assets Of Governmental Activities	<u>\$ 28,454,108</u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

OWEN COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

OWEN COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes	\$ 1,064,090	\$	\$	\$ 1,064,090
Excess Fees	93,260			93,260
Intergovernmental	352,523	1,021,161	38,435	1,412,119
Charges for Services	319,014		100	319,114
Miscellaneous	20,057	26,796		46,853
Interest	7,523	10,002		17,525
Total Revenues	<u>1,856,467</u>	<u>1,057,959</u>	<u>38,535</u>	<u>2,952,961</u>
EXPENDITURES				
General Government	446,024			446,024
Protection to Persons and Property	461,588		129,735	591,323
General Health and Sanitation	109,779			109,779
Social Services	30,627			30,627
Recreation and Culture	38,645			38,645
Roads		895,869		895,869
Debt Service	187,257			187,257
Capital Projects	151,640			151,640
Administration	304,690	153,336	4,256	462,282
Total Expenditures	<u>1,730,250</u>	<u>1,049,205</u>	<u>133,991</u>	<u>2,913,446</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>126,217</u>	<u>8,754</u>	<u>(95,456)</u>	<u>39,515</u>
Other Financing Sources (Uses)				
Transfers From Other Funds	823		94,500	95,323
Transfers To Other Funds	(94,500)	(823)		(95,323)
Total Other Financing Sources (Uses)	<u>(93,677)</u>	<u>(823)</u>	<u>94,500</u>	
Net Change in Fund Balances	32,540	7,931	(956)	39,515
Fund Balances - Beginning (Restated)	794,507	434,751	1,810	1,231,068
Fund Balances - Ending	<u>\$ 827,047</u>	<u>\$ 442,682</u>	<u>\$ 854</u>	<u>\$ 1,270,583</u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

**OWEN COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2004

OWEN COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$	39,515
--	----	--------

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay		109,617
Depreciation Expense		(1,148,138)

Lease and bond principal payments are expensed in the Governmental Funds as a use of current financial resources.

Financing Obligations		90,550
Bond Payments		115,000

Change in Net Assets of Governmental Activities	\$	(793,456)
---	----	-----------

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.....	25
NOTE 2.	DEPOSITS.....	29
NOTE 3.	CAPITAL ASSETS	30
NOTE 4.	SHORT-TERM DEBT.....	31
NOTE 5.	CAPITAL LEASE AGREEMENTS.....	31
NOTE 6.	INTEREST ON LONG-TERM DEBT AND FINANCING OBLIGATIONS.....	33
NOTE 7.	EMPLOYEE RETIREMENT SYSTEM.....	33
NOTE 8.	DEFERRED COMPENSATION	33
NOTE 9.	INSURANCE	33
NOTE 10.	CHANGES IN ACCOUNTING PRINCIPLES AND PRIOR PERIOD ADJUSTMENTS.....	34
NOTE 11.	ESTIMATED INFRASTRUCTURE HISTORICAL COST	34

**OWEN COUNTY
NOTES TO FINANCIAL STATEMENTS**

June 30, 2004

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government wide and fund financial statements utilizing a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets are included in the Statement of Net Assets and their corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Owen County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service.

C. Owen County Elected Officials Not Part Of Owen County, Kentucky

Kentucky law provides for election of the officials below from the geographic area constituting Owen County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Owen County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

OWEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities normally are supported by taxes and intergovernmental revenues. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental). The fiscal court may also designate any fund as major. For this fiscal year, there were no non-major funds reported by the fiscal court.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

OWEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 30, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

E. Deposits

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the governmental activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

OWEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets (Continued)

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 2,000	10-60
Buildings and Building Improvements	\$ 2,000	10-75
Machinery and Equipment	\$ 2,000	3-25
Vehicles	\$ 2,000	3-25
Infrastructure	\$ 2,000	10-50

G. Long-term Obligations

In the government-wide financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest is reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances, may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

OWEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Note 2. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. However, as of June 30, 2004, the collateral and the FDIC insurance together did not equal or exceed the amount on deposit, leaving \$140,009 of public funds uninsured and unsecured.

The county's deposits are categorized below to give an indication of the level of risk assumed by the county as of June 30, 2004.

	<u>Bank Balance</u>
FDIC Insured	\$ 100,000
Collateralized with securities held by pledging depository institution in the county's name	300,000
Uncollateralized and uninsured	<u>140,009</u>
Total	<u><u>\$ 540,009</u></u>

OWEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2004 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 215,000	\$	\$	\$ 215,000
Total Capital Assets Not Being Depreciated	215,000			215,000
Capital Assets Being Depreciated:				
Buildings	510,478			510,478
Vehicles and Equipment	1,301,349	109,617		1,410,966
Infrastructure	32,539,006			32,539,006
Total Capital Assets Being Depreciated	34,350,833	109,617		34,460,450
Less Accumulated Depreciation For:				
Buildings	(62,911)	(7,775)		(70,686)
Vehicles and Equipment	(952,190)	(99,115)		(1,051,305)
Infrastructure	(5,206,241)	(1,041,248)		(6,247,489)
Total Accumulated Depreciation	(6,221,342)	(1,148,138)		(7,369,480)
Total Capital Assets, Being Depreciated, Net	28,129,491	(1,038,521)		27,090,970
Governmental Activities Capital Assets, Net	\$ 28,344,491	\$ (1,038,521)	\$	\$ 27,305,970

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 6,619
Protection to Persons and Property	30,476
General Health and Sanitation	5,300
Social Services	1,500
Roads, Including Depreciation of General Infrastructure Assets	<u>1,104,243</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 1,148,138</u>

OWEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 4. Short-Term Debt

In July 2003, Owen County participated in the Kentucky Association of Counties Kentucky Advance Revenue Program by issuing a note in the amount of \$1,495,500 for the General Fund and \$511,200 for the Road Fund, with principal being due in January 2004. While the County did not use the borrowed funds in order to meet current General and Road Fund expenses, they were able to reinvest the funds and receive net interest earnings from the Kentucky Association of Counties Kentucky Advance Revenue Program. The General and Road Fund received net interest earnings of \$434 and \$148, respectively.

	Beginning Balance	Additions	Reductions	Ending Balance
KARP	\$	\$ 2,006,700	\$2,006,700	\$
Governmental Activities				
Short-term Liabilities	\$ 0	\$ 2,006,700	\$ 2,006,700	\$ 0

Note 5. Capital Lease Agreements

A. On May 9, 2003, the Owen County Fiscal Court entered into a \$125,941, ten-year lease agreement with the Kentucky Association of Counties Leasing Trust to refinance the General Obligation Bonds, Series 2001, used to purchase the building for the County Clerk's office, at an interest rate of 2.245%. This lease agreement calls for monthly installments of principal, interest and fees with the first monthly payment beginning July 20, 2003. The following schedule outlines the remaining lease payments.

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$ 11,293	\$ 3,323
2006	11,638	2,981
2007	11,994	2,624
2008	12,360	2,259
2009	12,737	1,873
2010-2013	54,961	3,470
Totals	\$ 114,983	\$ 16,530
Less: Additional Payments made during 2004	\$ 52,089	
Total Outstanding as of June 30, 2004	\$ 62,894	

OWEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 5. Capital Lease Agreements (Continued)

- B. On July 15, 2002, the Owen County Fiscal Court entered into a \$75,888 four-year lease agreement with Public-Finance.com to purchase a new ambulance at an interest rate of 4.49%. An annual lease payment is due each July 25, with the first payment due July 25, 2002. The following schedule outlines the remaining lease payments.

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$ 18,537	\$ 1,702
2006	19,370	870
Totals	<u>\$ 37,907</u>	<u>\$ 2,572</u>

- C. On July 15, 2002, the Owen County Fiscal Court entered into a \$43,388 four-year lease agreement with Ford Motor Credit Company to purchase two police cruisers at an interest rate of 7.07%. An annual lease payment is due each July 15, with the first payment due July 15, 2002. The following schedule outlines the remaining lease payments.

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$ 10,452	\$ 1,531
2006	11,192	791
Totals	<u>\$ 21,644</u>	<u>\$ 2,322</u>

D. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 115,000	\$	\$ 115,000	\$	\$
Financing Obligations	212,995		90,550	122,445	40,282
Governmental Activities					
Long-term Liabilities	<u>\$ 327,995</u>	<u>\$</u>	<u>\$ 205,550</u>	<u>\$ 122,445</u>	<u>\$ 40,282</u>

OWEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 6. Interest On Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$ 3,963 in interest on financing obligations and \$3,122 in interest on bonds and notes.

Note 7. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 18.51 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 8. Deferred Compensation

The Owen County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report.

Note 9. Insurance

For the fiscal year ended June 30, 2004, Owen County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

OWEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 10. Changes in Accounting Principles and Prior Period Adjustments

The County has implemented Governmental Accounting Standards Board (GASB) Statements 33, 34 and 37, as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements. The beginning net asset balance for the governmental activities was \$29,102,764, and the beginning fund balance for the governmental activities was \$1,231,068 for an increase of \$27,871,696, due to capital assets previously not reported and the effect of long-term debt.

Note 11. Estimated Infrastructure Historical Cost

Infrastructure historical cost is an estimate. The primary government estimated the year infrastructure was built by determining when a major reconstruction had been done on infrastructure. This estimate was used to calculate the infrastructure historical cost by determining current year construction cost and deflating it back to the estimated year of construction or reconstruction.

OWEN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004

OWEN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2004

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 915,400	\$ 915,400	\$ 1,064,090	\$ 148,690
Excess Fees	31,451	31,451	93,260	61,809
Intergovernmental Revenue	1,089,610	1,089,610	352,523	(737,087)
Charges for Services	218,000	218,000	319,014	101,014
Miscellaneous	23,000	23,000	20,057	(2,943)
Interest	13,500	13,500	7,523	(5,977)
Total Revenues	<u>2,290,961</u>	<u>2,290,961</u>	<u>1,856,467</u>	<u>(434,494)</u>
EXPENDITURES				
General Government	470,440	475,734	446,024	29,710
Protection to Persons and Property	451,328	467,275	461,588	5,687
General Health and Sanitation	100,682	101,458	109,779	(8,321)
Social Services	36,605	41,307	30,627	10,680
Recreation and Culture	46,000	43,162	38,645	4,517
Debt Service	188,124	188,124	187,257	867
Capital Projects	1,005,000	965,870	151,640	814,230
Administration	290,712	305,961	304,690	1,271
Total Expenditures	<u>2,588,891</u>	<u>2,588,891</u>	<u>1,730,250</u>	<u>858,641</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(297,930)</u>	<u>(297,930)</u>	<u>126,217</u>	<u>424,147</u>
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds				
Transfers From Other Funds	68,209	68,209	823	(67,386)
Transfers To Other Funds	<u>(96,221)</u>	<u>(96,221)</u>	<u>(94,500)</u>	<u>1,721</u>
Total Other Financing Sources (Uses)	<u>(28,012)</u>	<u>(28,012)</u>	<u>(93,677)</u>	<u>(65,665)</u>
Net Changes in Fund Balance	(325,942)	(325,942)	32,540	358,482
Fund Balance - Beginning	<u>325,942</u>	<u>325,942</u>	<u>794,507</u>	<u>468,565</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 827,047</u>	<u>\$ 827,047</u>

OWEN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 971,595	\$ 1,011,595	\$ 1,021,161	\$ 9,566
Miscellaneous	400	400	26,796	26,396
Interest	12,000	12,000	10,002	(1,998)
Total Revenues	983,995	1,023,995	1,057,959	33,964
EXPENDITURES				
Roads	786,093	961,093	895,869	65,224
Administration	179,693	204,693	153,336	51,357
Total Expenditures	965,786	1,165,786	1,049,205	116,581
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	18,209	(141,791)	8,754	150,545
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(68,209)	(68,209)	(823)	67,386
Total Other Financing Sources (Uses)	(68,209)	(68,209)	(823)	67,386
Net Changes in Fund Balance	(50,000)	(210,000)	7,931	217,931
Fund Balance - Beginning	50,000	210,000	434,751	224,751
Fund Balance - Ending	\$ 0	\$ 0	\$ 442,682	\$ 442,682

OWEN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Intergovernmental Revenue	\$ 33,429	\$ 33,429	\$ 38,435	\$ 5,006
Charges for Services	250	250	100	(150)
Total Revenues	33,679	33,679	38,535	4,856
EXPENDITURES				
Protection to Persons and Property	124,825	124,825	129,735	(4,910)
Administration	5,075	5,075	4,256	819
Total Expenditures	129,900	129,900	133,991	(4,091)
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(96,221)	(96,221)	(95,456)	765
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	96,221	96,221	94,500	(1,721)
Total Other Financing Sources (Uses)	96,221	96,221	94,500	(1,721)
Net Changes in Fund Balance			(956)	(956)
Fund Balance - Beginning			1,810	1,810
Fund Balance - Ending	\$ 0	\$ 0	\$ 854	\$ 854

**OWEN COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2004

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**OWEN COUNTY
COMMENT AND RECOMMENDATION**

For The Year Ended June 30, 2004

**OWEN COUNTY
COMMENT AND RECOMMENDATION**

Fiscal Year Ended June 30, 2004

STATE LAWS AND REGULATIONS:

The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

On August 31, 2003, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$154,695 of public funds uninsured and unsecured and on June 30, 2004, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$140,009 of public funds uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the county require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

County Judge/Executive William P. O'Banion's Response:

Bank was notified the day we were informed. Matter has been corrected.

PRIOR YEAR:

The County Should Maintain Timesheets On All Employees With The Exception of Elected Officials

Corrected during current year.

THIS PAGE LEFT BLANK INTENTIONALLY

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable William P. O'Banion, Owen County Judge/Executive
Members of the Owen County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities and each major fund of Owen County, Kentucky as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements and have issued our report thereon dated April 26, 2005. Owen County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Owen County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Owen County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and is described in the accompanying comment and recommendation.

- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of Owen County Fiscal Court, management, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
April 26, 2005

